Manitoba

Annual Report 1984 - 85

Manitoba Development Corporation

MANITOBA DEVELOPMENT CORPORATION

May 14, 1986

Honourable Victor Schroeder,
Minister Responsible for the Administration of
The Development Corporation Act.

In accordance with the provisions of Part I and Part II of The Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1985.

Respectfully submitted on
behalf of the Board of Directors

H.J. Jones,
Chairman and General Manager.

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Table of Contents

TITLE	PAGE
Letter of Transmittal	3
Report of the Chairman and General Manager	5
Directors and Officers	6
Auditor's Report	7
Balance Sheet	9-10
Statement of Revenue and Expenditure	11
Statement of Deficit	12
Part I Equity Investments and Related Loan Receivable	13
Part I Account in Receivership	14
Part I Allowance for Doubtful Accounts and Potential Losses on Investments and Guarantee	14
Part II Equity Investments and Related Loans Receivable	15
Report of Assistance Granted or to be Granted	16
Notes to Financial Statements	17-19

Report of the Chairman and General Manager

As has been the case for the last number of years since the financing activities of the Corporation were suspended in 1977, activity under Part I of The Development Corporation Act was limited to the provision of loan commitments and chartered bank guarantees for Flyer Industries Limited solely.

In the Fall of 1984, with Cabinet concurrence, the Corporation undertook to aggressively pursue merger and/or divestiture opportunities with respect to Flyer Industries Limited. This exercise culminated in a signing of a Share Purchase Agreement with BV Carrosseriefabrieken Den Oudsten en Zonen on April 10th, 1986.

Other M.D.C. activities under Part I of The Development Corporation Act, as at March 31, 1985, included continued collections of the existing Part I Loan Portfolio. The latter, as at March 31, 1985 had a balance of $8,649,926 as compared to $9,110,348 at the previous year-end.

Since Part II activities are initiated and funded by the Government of Manitoba, the Corporation accounts for these activities on an Agency basis. Chief among these Government activities undertaken by the Corporation during the year under review were:

1. The administration of portions of the Destination Manitoba Program providing loan assistance for capital projects related to development and expansion of rural tourist facilities;
2. The administration of the monitoring of Development Agreements and other forms of financial assistance provided under the Manitoba Jobs Fund Program, and
3. The monitoring and administration of the Loan Portfolio of the Manitoba Interest Rate Relief Program for Small Business.

During the year under review, A.E. McKenzie Co. Ltd. was re-financed to the extent that $7,154,000 of interest and principal was converted to preferred shares.

An entire new slate of Members of the Board of Directors was named by the Provincial Government in July, 1984. My appreciation is extended to these new Directors for their guidance and counsel.

H.J. Jones,
Chairman and General Manager.

Directors and Officers at March 31, 1985

Board of Directors

Hugh Jones, Chairman and General Manager
Oscar Carbonell
Joan Cox
Walter Kramble
Ralph Nault
Jan Sylvestre (Resigned March 13th, 1985)
Floyd Williston

Officers

Hugh Jones, Chairman and General Manager
Alec Y. Musgrove, Treasurer
Greg M. Goodwin, Assistant General Manager
and Secretary

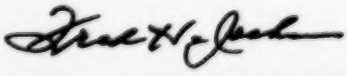
Office of the Provincial Auditor
Report

Manitoba Development Corporation

We have examined the financial statements, being Exhibits A to C and Schedules 1 to 5, of the Manitoba Development Corporation for the fiscal year ended March 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The total revenue shown on the Statement of Revenue and Expenditure in the amount of $3,735,549 includes $1,141,419 of interest received or receivable from the Government of the Province of Manitoba on account of term deposits of the Corporation's surplus funds pertaining to Part I operations.

In our opinion, these financial statements, together with the comments in the preceding paragraph, present fairly the financial position of the Manitoba Development Corporation as at March 31, 1985 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 1 to the financial statements applied on a basis consistent with that of the preceding year.



November 22, 1985,
Winnipeg, Manitoba.

F. H. Jackson, C.A.,
Provincial Auditor.

Exhibit A
Manitoba Development Corporation

Balance Sheet

as at March 31, 1985

Assets	1985	1984
Part I		
Cash in bank	$ 205,286	$ 166,992
Short term deposits with the Government of the Province of Manitoba	11,015,865	17,314,744
Accounts receivable and accruals	313,476	346,296
Recoverable from the Government of the Province of Manitoba (Note 2)	275,593	39,579
Recoverable from Canada	—	62,000
Due from Part II	54,480	22,080
Loans receivable, less allowance for doubtful accounts Schedule 3	8,649,926	9,110,348
Equity investments and related loan receivable, Schedules 1 and 2, less allowance for potential losses, Schedule 3	—	—
Properties held for resale, at the lower of cost or estimated realizable value	161,837	187,662
Office furniture at cost less accumulated depreciation $53,035 (1984 - $54,198)	1,373	1,705
	$20,677,836	$27,251,406

Liabilities	1985	1984
Part I		
Accounts payable — trade	$ 50,727	$ 7,995
— Government of the Province of Manitoba	12,481	372,888
	63,208	380,883
Amount due to the Communities Economic Development Fund (Note 7(a))	361,627	459,527
Allowance for potential loss on bank loan guarantee, Schedule 3 (Note 6)	13,807,789	2,450,000
	14,232,624	3,290,410
Shareholder's Equity		
Capital Stock:		
Authorized: 500,000 shares, par value $100 each		
Issued and fully paid — 500,000 shares	50,000,000	50,000,000
Less: deficit, Exhibit C	43,554,788	26,039,004
	6,445,212	23,960,996
	$20,677,836	$27,251,406

Assets			Liabilities		
Part II			**Part II**		
Cash in bank	$ 116,962	$ 73,895	Trust liability re Destination Manitoba	$ 116,544	$ 56,853
Loans receivable authorized by the Government of the Province of Manitoba under Part II of The Development Corporation Act:			Interest payable	223,203	930,299
			Due to Part I	54,480	22,080
General:			Advances from the Government of the Province of Manitoba under Part II of The Development Corporation Act:		
Principal	2,194,870	1,042,458			
Interest	268,130	86,962	General	15,299,907	13,092,100
Manitoba Jobs Fund Program:			Manitoba Jobs Fund Program	11,840,000	—
Principal	11,840,000	—			
Equity investments and related loan receivable authorized by the Government of the Province of Manitoba under Part II of The Development Corporation Act, Schedule 4	13,114,172	12,898,017		27,139,907	13,092,100
	$27,534,134	$14,101,332		$27,534,134	$14,101,332

SIGNED ON BEHALF OF THE BOARD

Director

Director

Exhibit B

Manitoba Development Corporation

Statement of Revenue and Expenditure

for the year ended March 31, 1985

	1985	1984
Revenue:		
Interest:		
Loans — Part I	$ 1,289,238	$ 1,196,372
— Part II	863,398	948,480
Term deposits	1,141,419	1,605,836
	3,294,055	3,750,688
Rental income — net	7,938	9,267
Recoveries — Government of the Province of Manitoba (Note 3)	325,743	147,348
Property tax recovery	18,028	—
Grants received	—	248,000
Guarantee fees	89,785	29,167
	3,735,549	4,184,470
Expenditure:		
Interest — Government of the Province of Manitoba — Part II	863,398	948,480
Salaries and benefits	205,204	124,221
Other expenses (Note 7(b))	657,621	369,195
	1,726,223	1,441,896
Excess of revenue over expenditure before the following:	2,009,326	2,742,574
Less: Provision for doubtful accounts and potential losses on investments and guarantee, Schedule 3	18,709,555	12,226,484
Net loss for the year	16,700,229	9,483,910
Add: Subsidy to the Communities Economic Development Fund (Note 7(a))	815,555	773,117
Transfer to deficit, Exhibit C	$17,515,784	$10,257,027

Exhibit C
Manitoba Development Corporation

Statement of Deficit

for the year ended March 31, 1985

	1985	1984
Balance — beginning of year	$26,039,004	$15,781,977
Transfer from revenue and expenditure, Exhibit B	17,515,784	10,257,027
Balance — end of year, Exhibit A	$43,554,788	$26,039,004

Schedule 1
Manitoba Development Corporation

Part I Equity Investments and Related Loan Receivable

as at March 31, 1985

	Shares Issued and Outstanding	Shares owned by the Manitoba Development Corporation	Equity Investments	Loan Receivable
William Clare (Manitoba) Ltd.				
Equity investment-nominal value				
Common shares	100	100	$ 1	
Flyer Industries Limited				
Equity investment-at cost				
Preferred shares	10,000,000	9,682,000	9,682,000	
Subordinate preferred shares	8,000,000	8,000,000	8,000,000	
Common shares	552,883	552,563	16,750,106	
Loan receivable				$ 2,998,027
			$34,432,107	$ 2,998,027
Summary:				
Equity investments				$34,432,107
Loan receivable				2,998,027
				37,430,134
Less: Allowance for potential losses, Schedule 3				37,430,134
Equity investments and related loan receivable — net				$ —

Schedule 2
Manitoba Development Corporation

Part I Account in Receivership

as at March 31, 1985

	1985	1984
Saunders Aircraft Corporation Limited	$100	$100
Less: Allowance for estimated losses, Schedule 3	100	100
Account in receivership — net	$ —	$ —

Schedule 3
Manitoba Development Corporation

Part I Allowance for Doubtful Accounts and Potential Losses on Investments and Guarantee

for the year ended March 31, 1985

	Balance March 31, 1984	Add: Provision	Less: Write-offs	Balance March 31, 1985
Loans receivable	$ 50,000	$ —	$ —	$ 50,000
Equity investments and related loan receivable, Schedule 1	30,078,368	7,351,766	—	37,430,134
Bank loan guarantee to subsidiary (Note 6)	2,450,000	11,357,789	—	13,807,789
Account in receivership, Schedule 2	100	—	—	100
	$32,578,468	$18,709,555	$ —	$51,288,023

Schedule 4
Manitoba Development Corporation

Part II Equity Investments and Related Loan Receivable

as at March 31, 1985

	Shares Issued and Outstanding	Shares owned by the Manitoba Development Corporation	Equity Investments	Loan Receivable
A. E. McKenzie Co. Ltd.				
Equity investment — at cost				
Preferred shares	12,154,000	12,154,000	$12,154,000	
Common shares	1,145	—	—	
Loan receivable:				
Principal				$ 950,519
Interest				9,653
			$12,154,000	$ 960,172
Summary:				
Equity investments				$12,154,000
Loan receivable				960,172
Equity investments and related loan receivable				$13,114,172

Schedule 5
Manitoba Development Corporation

Report of Assistance Granted or to be Granted

for the year ended March 31, 1985

Assistance approved under Part I of The Development Corporation Act	
FLYER INDUSTRIES LIMITED	
Bank guarantee — fee 1/2 of 1% per annum — term subject to review	$20,500,000
Loan — interest 13 3/4% — 4 month term	1,500,000
Loan — interest 13 1/2% — 5 month term	4,000,000
Assistance approved under Part II of The Development Corporation Act	
A. E. MCKENZIE CO. LTD.	
Loan — interest at Provincial Government borrowing rate — 5 year term	$ 1,000,000
Investment — purchase of 6% non-cumulative, redeemable, convertible, preferred shares	7,154,000
MANITOBA JOBS FUND PROGRAM	
Gravure Graphics Ltd.	
Loan — interest 13.875% — 10 year term	$ 638,000
Loan — interest Nil — forgiveable (Note 9)	500,000
Bank guarantee — fee 2% per annum — 10 year term	975,000
Letter of credit — fee 2% per annum — 5 year term	250,000
Jannock Limited	
Loan — interest Nil — forgiveable (Note 9)	$ 1,000,000
Sherritt Gordon Mines Limited	
Loan — Interest 12 3/8% — 5 year term	$10,000,000
Toro Canada Ltd.	
Loan — interest Nil — 5 year term (Note 9)	$ 625,000
DESTINATION MANITOBA LOANS (Note 10)	

		Interest Rate	Term	Amount
Arctic Trading Co. Inc.		nil	10 years	$ 25,000
Arctic Trading Co. Inc.	maximum	7%	10 years	2,400
Enns, Isaac and/or Elizabeth		nil	10 years	25,000
Enns, Isaac and/or Elizabeth	maximum	7%	10 years	25,615
Kelsey Country House Boats Ltd.		nil	10 years	25,000
Kelsey Country House Boats Ltd.	maximum	7%	10 years	16,600
Laurie River Lodge Ltd.		nil	10 years	25,000
Laurie River Lodge Ltd.	maximum	7%	10 years	19,240
Northern Manitoba Outfitters Ltd.		nil	10 years	23,800
Perche Holdings Ltd.		nil	10 years	25,000
Perche Holdings Ltd.	maximum	7%	10 years	8,400
Ste. Rose Foods Ltd.		nil	10 years	25,000
Ste. Rose Foods Ltd.	maximum	7%	10 years	50,000
64567 Man. Ltd.		nil	10 years	25,000
64567 Man. Ltd.	maximum	7%	10 years	40,000
				$361,055

Manitoba Development Corporation

Notes to Financial Statements

March 31, 1985

1. Accounting Policies:

   (a) The Corporation's lending and guaranteeing activities undertaken on its initiative are under Part I of The Development Corporation Act and are subject to the limitations outlined in note 4; the activities undertaken on the initiative of the Government of the Province of Manitoba are under Part II of the Act (Note 8). In accordance with the Act, the activities under Part I and Part II are accounted for separately.

   On the basis that Part II activities are initiated and funded by the Government, the Corporation accounts for these activities on an agency basis. Accordingly, no provisions for doubtful accounts and potential losses on investments are reflected in Part II. Appropriate provisions are reflected in the accounts of the Government of the Province of Manitoba.

   (b) An accrual basis of accounting is being followed except for (e) below.

   (c) The Corporation's financial statements do not include the accounts of its two subsidiary companies on a consolidated basis.

   The Corporation's investment in Flyer Industries Limited is shown at cost less an allowance which approximates the accumulated deficit of that company as reported in its audited financial statements for the year ended December 31, 1984 (Note 6).

   The Corporation's investment in William Clare (Manitoba) Limited is shown at a nominal value of $1.

   (d) The allowance for doubtful accounts, i.e., possible losses on loans to borrowers wherein the Corporation does not have an equity investment, has been determined on an individual account basis.

   (e) The officers and employees of the Corporation are not members of the Civil Service of the Government of the Province of Manitoba, but they contribute to and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension disbursement made to retired employees. Such payments are charged to operations as incurred and provision is not made in the accounts to fund current or past service obligations to the Superannuation Fund. On the basis of an actuarial report, the unfunded liability for the Corporation's employees amounted to $209,602 as at December 31, 1984 ($183,300 as at December 31, 1983).

   (f) The Manitoba Development Corporation is jointly administered with the Communities Economic Development Fund. Common administrative expenses are paid by the Fund except for rent and utility costs which are paid by the Corporation. The Corporation has deemed that, in total, the administrative expenses represent a fair allocation of costs to the Corporation. Accordingly, the common administrative expenses paid entirely by the Communities Economic Development Fund are not reflected in these financial statements.

   (g) Office furniture is depreciated at 10% on a straight line basis.

2. Recoverable from the Government of the Province of Manitoba:

	1985	1984
Costs or fees re:		
Flyer Industries Limited (Note 7(b))	$213,500	$ —
The Pas Forestry Complex (Note 5(c))	25,930	—
Destination Manitoba (Note 8)	22,808	39,579
Manitoba Interest Rate Relief Program (Note 8)	13,355	—
	$275,593	$ 39,579

3. Recoveries — Government of the Province of Manitoba:

Cost or fees re:		
Flyer Industries Limited (Note 7(b))	$213,500	$ —
Destination Manitoba (Note 8)	98,888	147,348
Manitoba Interest Rate Relief Program (Note 8)	13,355	—
	$325,743	$147,348

4. Lending Operations:

The Corporation's lending operations were suspended effective November 15, 1977 except that, since that date, on the direction of the Government of the Province of Manitoba both Part I and Part II guarantee and loan commitments have been made. Guarantees and loan commitments outstanding are included in note 5.

5. Contingent Liabilities and Commitments:

	March 31 1985	March 31 1984
(a) Contingent Liabilities:		
Part I Contingent liability as guarantor for bank loans to Flyer Industries Limited:		
Total guarantee	$20,500,000	$10,000,000
Less recorded liability for allowance for potential loss on bank loan guarantee	13,807,789	2,450,000
Balance for which Corporation is contingently liable	$ 6,692,211	$ 7,550,000
(b) Commitments:		
Part I Commitment — undisbursed balance of approved loan:		
Flyer Industries Limited	$ 5,430,520	$ 7,750,000
Part II Commitment — undisbursed balances of approved loans:		
Destination Manitoba	$ 768,022	$ 1,329,362
Tantalum Mining Corp.	115,500	408,000
	$ 883,522	$ 1,737,362

(c) The Pas Forestry Complex

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Government of the Province of Manitoba and the Corporation, the Corporation has a continuing responsibility to press all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex or the assets of the Complex, which were transferred to Manfor Ltd., and also to defend claims in respect to those assets. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Government of the Province of Manitoba.

(d) Saunders Aircraft Corporation Limited

Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation on May 20, 1976. The Manitoba Development Corporation has indemnified the Receiver-Manager for expenses, losses or damages incurred as Receiver-Manager including product support.

Funds realized from the receivership actions, less an estimated amount retained by the Receiver-Manager to cover future administrative costs, are remitted to the Government of the Province of Manitoba. Funds in excess of those required by the Receiver-Manager are payable to the Government of the Province of Manitoba.

The Receiver-Manager has provided the Manitoba Development Corporation with an estimate of the possible further realization from the receivership of $200,000. The estimate pertains to an expected realization of an outstanding account which is being contested through the courts in Ontario. Once the aforementioned litigation is completed, there are no other matters which would require the services of a professional receiver-manager.

(e) Litigation

The Corporation was named as defendant regarding a former loan application. The claim was for general damages in the amount of $2 million, special damages and costs. The matter was settled out of court during the year for $60,000.

6. Allowance for potential loss on bank loan guarantee:

The Corporation provides an allowance for potential loss on its investment in Flyer Industries Limited on the basis described in note 1(c) to these financial statements.

Because the subsidiary's accumulated deficit reported in its most recent audited financial statements exceeds the Corporation's investment as at March 31, 1985, it is necessary to consider the Corporation's bank loan guarantee to the subsidiary and provide an additional allowance for potential loss for this excess amount (Note 5(a)).

7. Administration of the Corporation:

(a) The Manitoba Development Corporation provides the subsidy assistance required by the Communities Economic Development Fund to the extent of the Fund's excess of expenditure over revenue.

(b) Included in other expenses in Exhibit B are expenditures of $322,866 incurred by the Corporation, as the majority shareholder in Flyer Industries Limited, related to the development of corporate strategies, etc. for Flyer Industries Limited. A portion of these expenditures are recoverable from the Government of the Province of Manitoba.

8. Activities Undertaken on the Initiative of the Government of the Province of Manitoba:

Part II of The Development Corporation Act authorizes the Corporation to undertake activities at the direction of the Government of the Province of Manitoba. Such activities undertaken include:

(a) Assistance to corporations under the general authority of Part II of The Development Corporation Act.

(b) Acting as the agent for the Government in administering portions of the Destination Manitoba Program in respect to:

i) providing loan assistance for capital projects related to the development and expansion of rural tourist facilities and

ii) acting as a conduit for the conditional grant aspect of the program which is funded through the Department of Business Development and Tourism.

(c) Acting as the agent for the Government in providing loan assistance under The Manitoba Jobs Fund Program.

(d) Monitoring the loan portfolio of The Manitoba Interest Rate Relief Program for Small Business.

The Corporation is entitled to recover administrative costs for administering The Destination Manitoba Program and The Manitoba Interest Rate Relief Program for Small Business.

The Corporation does not recover administration costs for its participation in The Manitoba Jobs Fund Program and for the assistance provided to corporations amounting to an estimated $100,000 for the year ended March 31, 1985.

9. Manitoba Jobs Fund Program Loans:

(a) Should the companies who received these loans default on conditions of the loans then the loans become repayable in whole or in part and interest may be charged.

(b) Interest on these loans is billed to and payable by the Department of Industry, Trade and Technology.

10. Destination Manitoba Loans:

The first $25,000 of a loan is non-interest bearing if companies adhere to conditions of the loan while the balance of the loan bears interest at 1/2 of the bank commercial prime rate adjusted quarterly; however, the rate charged will not exceed 7%.

11. Comparative Figures:

The 1984 figures have been restated where necessary to conform with the 1985 financial statement presentation.